



Treasury Inspector General for Tax Administration

INCREASING FEDERAL AND STATE COOPERATION AND PROMOTING ELECTRONIC FILING WOULD IMPROVE ADMINISTRATION OF TAXES USED TO MAINTAIN THE NATION'S HIGHWAYS

Issued on March 24, 2008

Highlights

Highlights of Report Number: 2008-40-089 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

The Heavy Highway Vehicle Use Tax (Heavy Vehicle Use Tax) is a prepaid tax the Internal Revenue Service (IRS) collects. Combined with other Federal excise taxes, it is used to provide more than \$1 billion annually in Federal highway transit funds to the States. Expanding the Alternate Proof of Payment Program could reduce taxpayer burden by allowing taxpayers one-stop service when paying this Tax and registering their vehicles. The Alternate Proof of Payment Program is based on an agreement between the IRS and State Departments of Motor Vehicles that allows taxpayers to simultaneously file, pay the Heavy Vehicle Use Tax, and register their vehicles. In addition, expanding electronic filing of the Heavy Highway Vehicle Use Tax Return (Form 2290) would reduce costs for both taxpayers and the IRS.

WHY TIGTA DID THE AUDIT

The Heavy Vehicle Use Tax is a Federal highway use tax paid annually on vehicles with a taxable gross weight of 55,000 or more pounds, designed to carry a load over public highways, and expected to be used more than 5,000 miles (more than 7,500 miles for agricultural uses). This audit was initiated because the IRS is charged with administering the Heavy Vehicle Use Tax, which requires it to provide proof of payment of the tax to taxpayers so they can register and operate their vehicles. This tax places considerable burden on those who must pay it.

WHAT TIGTA FOUND

The IRS recognizes the unique challenges and complexity related to the Heavy Vehicle Use Tax and offers a number of assistance options for taxpayers. The Alternate Proof of Payment Program provides Form 2290 filers with one-stop service by providing

the ability to file Form 2290 and pay the Heavy Vehicle Use Tax simultaneously when registering a vehicle, which reduces taxpayer burden. In addition, this Program can reduce the risk of noncompliance because the tax return and associated payment are provided at the time of registration. However, this Program currently operates in only 11 States.

The IRS has developed a process that enables Form 2290 filers to electronically file their tax returns because of a law requiring taxpayers with 25 or more vehicles to electronically file. As of December 9, 2007, the IRS had received 1,569 electronically filed Forms 2290. Although electronic filing benefits both taxpayers and the IRS, costs and unfamiliarity with this option may be limiting participation.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS encourage more State participation in the Alternate Proof of Payment Program, develop a process to identify States participating in the Program, ensure that agreement provisions are followed, and promote the benefits of electronic filing to all Form 2290 filers to increase electronic filing participation.

In their response to the report, IRS management agreed with these recommendations. The IRS Office of Governmental Liaison plans to solicit additional State participation in the Alternate Proof of Payment Program. It also plans to verify compliance with guidelines. The Chief, Excise Tax Operations, plans to use various methods to promote electronic filing that includes providing information and outreach about the benefits of Form 2290 electronic filing to various trucking industry associations.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2008reports/200840089fr.pdf>

Email Address: inquiries@tigta.treas.gov
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